B5350-2 11/23/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

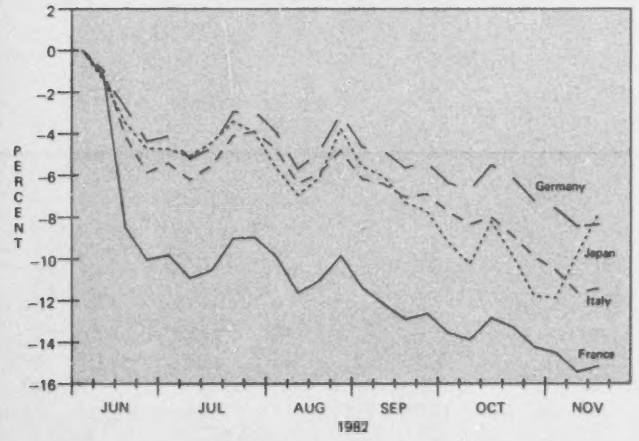
MONDAY, NOVEMBER 22, 1982 VOLUME XIX, NUMBER 47

The Road To Recovery . . .

This recession is getting to be an old-timer and may well become the longest postwar downturn. It has been around for at least 16 months and shows no signs of going away. Already, the downturn has persisted six months longer than the postwar average, and has probably equaled the length of the 1973-75 recession. What is more, since the current economic decline followed the shortest recovery on record, to many it seems even older.

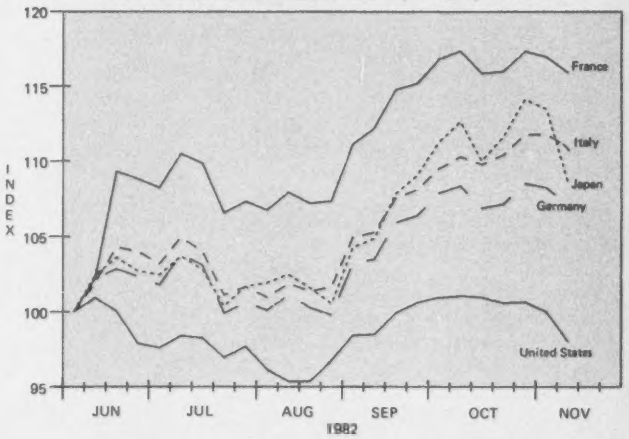
That the recession continued through the third quarter can be seen from the Commerce Department's downward revision of the third quarter's "real" GNP. Whereas Commerce originally thought that there was a seasonally adjusted 0.8 per cent annual rate of rise, more complete calculations show that the nation's output of goods and services was unchanged from the second quarter. More important, real final sales (GNP less changes in inventories) fell by 1.8 per cent—triple the previously estimated decline.

CHART I
VALUE IN U.S. DOLLARS OF SELECTED CURRENCIES
% CHANGE FROM JUNE 4, 1982



The latest readings on the economy suggest that business contracted further in October, even though the housing sector continued its apparent revival. For although construction of new homes was 31.4 per cent higher than a year ago, the month-over-month increase was slight—only one per cent—even after a sizable downward revision for September. Housing starts of single-family homes rose by only 1.3 per cent while multi-family homes remained virtually unchanged. However, the weakness was concentrated in the Northeast, where

CHART II
AVERAGE SELLING PRICE OF OPEC OIL
LOCAL CURRENCY EQUIVALENT, JUNE 4, 1982=100



new-home starts fell by almost 35 per cent month-over-month, while all the other regions gained. The biggest advance was posted in the North Central area with 17 per cent more units started. On an even brighter note, applications for building permits—a leading indicator of economic activity in general and housing construction in particular—jumped by 18 per cent.

Retail sales were disappointing, increasing only 0.6 per cent month-over-month. Even this small rise was propelled by higher prices of domestic cars, not higher volume. Automobile manufacturers in October ended their discounts and rebates to dealers, lowering financing costs, instead. If car purchases are excluded, retail sales would have actually declined by 0.1 per cent.

. . . Is Getting Longer

The anemic demand from the nation's retailers and wholesalers forced manufacturers to trim production in October—the 13th monthly decline in the past 15 months. As a result, manufacturers utilized

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only 68.4 per cent of capacity last month, the lowest rate on record. Output of the nation's factories, utilities and mines—a good coincident indicator of the state of the economy—declined by a seasonally adjusted 0.8 per cent last month compared with September, headed by a 4.8 per cent slide in the production of transportation equipment. Auto assemblies fell to a 4.7 million unit rate, from a 5.5 million unit pace in both August and September.

But Detroit may take some comfort in the fact that automobile sales, aided by lower interest rates on car loans, picked up during the first ten-day selling period of November to a 6.9 million unit rate from an average of 5.5 million units in October. If sustained, this will lead to increased auto production in the coming months. Of the industries for which data were available for October, only one—petroleum and petroleum products—stepped up production. Refiners utilized 72.7 per cent of operating capacity in October compared with September's 72.1 per cent, in order to expand supplies of home heating oil and to replenish depleted inventories in preparation for the winter months.

High Tide For The Dollar . . .

The current strength of the dollar is proving to be a mixed blessing not only for the United States, but for the rest of the world as well. Although it is clear that the U.S. benefits from the strong dollar in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 11/10/82	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	141.158	– .065	+ 8.986
Loans to Depository Inst.	.720	+ .261	– .288
Float	2.673	+ .794	– .219
Total Reserve Bank Credit	154.475	+ .823	+ 8.230
Treasury Deposits with Federal Reserve Banks	3.256	+ .602	+ .204
Currency Outside Banks	133.788	+ 1.337	+ 9.274
Member Bank Reserves:			
Required	39.965	– .738	+ .329
Excess (Deficiency)	.350	– .231	– .179
Total Reserves Held	40.315	– .969	+ .150
Net Borrowed Reserves	.130	+ .525	– .108
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	102.420	+ 1.026	+10.261

Monetary Aggregates†			% Change Since Three Months Ago*	% Change Since Year Ago
M1		473.1	+ 16.7‡	+ 8.5‡
M2	(October '82)	1,967.6	+ 9.2	+ 10.0
M3	(October '82)	2,379.8	+ 10.3	+ 10.6
L	(July '82)	2,830.5	+ 12.7	+ 11.9

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 11/19/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.50%	7.60%	7.95%
* Federal Agencies	8.25	8.75	9.15
* Project Notes—Taxfree (46% Taxable Equivalent)	7.41	8.33	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.00	9.13	9.88

‡Finance Company Paper—Prime

5- 14 days	8.50%
15- 29 days	8.75
30- 59 days	8.75
60- 89 days	8.63
90-179 days	8.63
180-239 days	8.63
240-270 days	8.63

‡* Bankers' Acceptances

Dec.	8.70%
Jan.	8.70
Feb.	8.70
Mar.	8.80
Apr.	8.75
May	8.60

‡Industrial Paper—Prime

30- 89 days	8.75%
90-120 days	8.75

†Federal Funds Effective Rate 8.95%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,081	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,478	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.0	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Sep '82	2.4%	3.6%	13.2%
Change in Producer Prices*	Oct '82n	6.0%	– 1.2%	7.2%
Civilian Employment (Thousands of Persons)†	Oct '82	99,093	99,720	100,343
Unemployment as % of Civilian Labor Force†	Oct '82	10.4%	10.1%	8.0%
Personal Income*	Oct '82n	$ 2,621	$ 2,602	$ 2,487
Leading Indicators Composite Index (1967=100)†	Sep '82	130.4	129.7	130.7
Industrial Production Index (1967=100) †	Oct '82n	136.3	137.4	149.1
Net Change in Consumer Installment Credit†	Sep '82	$ 1.09	$ 0.07	$ 2.98
U.S. Merchandise Trade Balance †	Sep '82	–$ 4.19	–$ 7.08	–$ 2.77
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Oct '82n	1,122	1,111	854
New Construction Expenditures*	Sep '82	$ 229.8	$ 230.2	$ 233.5
Total Business Inventories†	Sep '82	$ 515.3	$ 514.6	$ 515.3
Total Business Sales†	Sep '82	$ 338.4	$ 339.5	$ 353.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

terms of lower domestic costs for most imports of goods and services, this is counterbalanced by its negative effects on U.S. exports which becomes less and less competitive as the dollar strengthens.

Under ordinary circumstances, a strong dollar would be expected to benefit other countries, particularly the major exporting nations, by making their exports cheaper in dollar terms, thus stimulating sales of their products in the United States and in other dollar-denominated markets. But this time around in the face of one of the more protracted slumps in the U.S., the usual surge in U.S. imports has not taken place. Further, other export markets are also weak as a result of the global economic malaise.

But there is another perverse effect of the strong dollar overseas as well. The industrial countries have struggled to strike a balance between their domestic goals of restraining inflation and reducing unemployment on the one hand, and the necessity to restrict the outflow of capital and defend their currencies' exchange rate on the other. Complicating the already difficult task of meeting these diverse goals is the fact that oil prices are denominated in dollars, and as the dollar has strengthened (see Chart I), the cost of oil in other currencies has also risen (see Chart II).

For example, whereas the average selling price of OPEC oil in dollar terms fell by two per cent

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/3/82)	145,031	– 1,599	+18,517
New York City (11/3/82)	38,016	– 752	+ 6,439
Commercial Paper (11/3/82)	170,369	+ 294	+ 6,407

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/3/82)	217,132	+ 279	+26,988
New York City (11/3/82)	61,571	– 100	+ 6,452

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/3/82)	503,720	+ 3,976	+43,524
New York City (11/3/82)	121,753	+ 1,981	+12,217

Financial Markets

	Friday 11/19/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	0.00	– 2.05
180-Day Bills†	8.70	+ .05	– 2.59
Longest Bills†	8.95	+ .25	– 2.60
Recent Issues:			
9 3/4s 10/31/84	9.75	– .05	
12 1/4s 9/30/86	10.25	– .05	
10 1/2s 11/15/92	10.40	– .15	
10 3/8s 11/15/12	10.36	– .09	
Municipals:			
Bond Buyer–20 Bond Index* (11/18/82)	10.20%	+ .28	– 1.51
Blue List Total ($ Million)	$1,390	+ $161	+ $ 403
30-Day Visible Supply ($ Million)	$5,756	+ $137	+ $3,539
Total	$7,146	+ $298	+ $3,942
Corporates:			
Moody's Aa Composite (11/18/82)	12.49%	– .01	– 2.21
30-Day Visible Supply ($ Million) ‡	$1,370	+ $488	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,021.25	– 18.67	+ 168.32
Transportation	433.15	– 11.69	+ 54.83
Utilities	119.37	– .05	+ 7.95
65 Stocks	399.24	– 7.38	+ 55.35
Standard and Poor's 500 Stocks	137.02	– 2.51	+ 15.31
N.Y.S.E. Composite Index	79.32	– 1.37	+ 8.33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,980	–11,780	+ 35,374

* 46% Taxable equivalent 18.89%.
‡Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/19/82	Week Ago
Overnight	9.25%	9.00%
1 month	9.50	9.50
3 month	9.75	9.69
6 month	10.00	9.88
1 year	10.31	10.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.55%	12.45%
Long Term (7 to 15 yrs.)	12.60	12.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/19/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02014	49.65
Canada	.8188	1.2213
Denmark	.1121	8.9205
France	.1388	7.2050
Germany	.3923	2.5490
Italy	.0006809	1468.50
Japan	.003857	259.25
Mexico	.007407	135.00
Netherlands	.3600	2.7780
Switzerland	.4572	2.1870
U.K.	1.6182	.6180

between early June and mid-November, it rose by almost 16 per cent to holders of French francs, adding to that country's economic burdens. What is more, the need to sell increasing amounts of domestic currencies for dollars in order to purchase imported petroleum has intensified downward pressures on their exchange rates. Yet the universal use of oil as an energy source, lubricant and industrial feedstock makes it a key commodity in world trade. Hence, any attempt by an oil importing nation to restrict the inflow of oil supplies would have immediate and direct economic consequences.

. . . Means Deeper Water Abroad

The negative effects of the strong dollar on the other industrial countries has been ameliorated to some degree by other factors. Most industrial countries have been able to reduce oil imports both as a result of energy conservation policies and their domestic recessions. In the first seven months of this year, the volume of oil imported by France and Germany was almost 14 per cent and ten per cent below the same period in 1981 respectively. Japan, whose economy probably grew by about two to three per cent this year, reduced its volume of oil imports for the first seven months of 1982 by over seven per cent from the same period last year. Another favorable factor is that in many countries, exports, though weak, have fallen less than imports in both volume and value terms. Not only have the prices of many imports (particularly commodities) fallen sharply, but the volume of imports required for diminished economic activity has declined as well.

Nonetheless, the inflationary impact of the strong dollar through its effect on domestic oil prices abroad has been an important obstacle to reducing inflation. This has required the governments of the developed countries to maintain their anti-inflationary economic policies in the face of rising unemployment, extending their recessions. H

The Manufacturers Hanover track record in Fixed Income Management spells "performance."

For the period 1972-1981, the MH Fixed Income Fund delivered far greater returns than the Salomon Bros. Index and the P.I.P.E.R. Median.

The reason: The Manufacturers Hanover approach to investment management. You see, we believe in *active* management.

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For example, Manufacturers Hanover went beyond the concept of bond immunization to that of contingent immunization. This allows our portfolio managers to actively trade bonds, as long as the overall rate of return remains above a predetermined "floor." If the return hits the "floor," the portfolio is immunized to lock in the original targeted yield.

While contingent immunization does not guarantee the return, long term simulation, historic analyses and Manufacturers Hanover's actual experience indicate a likelihood of maintaining the floor with a high degree of probability.

It is this experience, combined with our investment philosophy, that has enabled us to outperform the averages. Just look at our ten year performance.

To learn how the Manufacturers Hanover active approach to pension fund management can affect your plan, contact William C. Petty, III, Vice President, at (212) 957-0760. Or write to him at the address below.

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*These numbers are annual time-weighted rates of return for the ten year period ending December 31, 1981
†Pension and Investments Performance Evaluation Report–Pooled Fixed Income Funds of Banks and Insurance Companies